

REPORT OF EXAMINATION
OF THE
LR Insurance, Inc.
AS OF
DECEMBER 31, 2019

Office of the
Commissioner



Delaware
Department of Insurance

REPORT ON EXAMINATION
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The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in blue ink, reading "Trinidad Navarro".

Trinidad Navarro
Insurance Commissioner

Dated this 23 day of June, 2021

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May 21, 2021

Honorable Trinidad Navarro
Insurance Commissioner
Delaware Department of Insurance
1351 W. North Street, Suite 101
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 20.036, dated March 31, 2020, an examination has been made of the affairs, financial condition and management of

LR Insurance, Inc.

hereinafter referred to as Company or LR. LR was incorporated under the laws of the State of Delaware as a stock company. The Company's registered office in the State of Delaware is located at 306 South State Street, Dover, Delaware 19901. The Company's administrative home office is located at 1330 Enclave Parkway, Suite 200, Houston, Texas.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our examination of LR Insurance, Inc., a multi-state insurer. The last examination covered the period from January 1, 2010 through December 31, 2014. This examination covered the period from January 1, 2015 through December 31, 2019.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook). The NAIC

Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the *General Corporation Laws* of the State of Delaware as required by 18 *Del. C.* §321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings or material adjustments to the Company's Financial Statements as a result of this examination.

COMPANY HISTORY

The Company was incorporated as Lloyd's Register Industrial Services on August 10, 1973 under the laws of the State of Delaware, and was licensed to transact business as an insurance company on August 14, 1973. The Company changed its name to LR effective

May 11, 1989. The Company is a wholly owned subsidiary of Lloyd's Register Americas, Inc. (Lloyd's Americas) which is a wholly owned subsidiary of Lloyd's Register, an inspection and classification of merchant ships holding company system domiciled in London, England.

Common Capital Stock

The Company is authorized to issue two hundred (200) shares of common stock with a par value of five thousand dollars (\$5,000) per share as of December 31, 2019. All issued and outstanding shares of the Company's stock are owned by Lloyd's Americas. The Company has agreed to maintain capital of \$1,000,000 and \$200,000 in surplus.

Dividends

The Company paid a stockholder dividend of \$4,580,000 in 2016. No other dividends were paid during the examination period.

MANAGEMENT AND CONTROL

Pursuant to the *General Corporation Laws* of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business, property and affairs are managed by or under the direction of its Board of Directors (Board).

Board of Directors

The Board shall consist of not less than three nor more than nine, the Directors shall be elected annually, and shall hold office until their successors are elected and qualify. As of December 31, 2019 the Board was comprised of four members. The following individuals were elected and serving on the Board as of December 31, 2019:

Directors

Robert Sluijter
Martin Cottam

Principal Business Affiliation

Finance Director, Lloyd's Register America's, Inc.
Head of Business Assurance, Lloyd's Register
Group Services Limited

John Douglas Hicks
Clifford Jay Muckleroy

President, Lloyd's Register North, Inc.
Officer, Lloyd's Register Quality, Inc.

Officers

Article V, Section 1 of the Company's bylaws provide that the officers of the Corporation shall be a President, one or more Vice Presidents, a Treasurer and a Secretary. The President shall be a Director. No other officers need be Directors. The number of Vice Presidents shall be determined by the Board. The officers shall be elected annually, and shall hold office until their successors are elected and qualify.

As of December 31, 2019, the Company's principal officers and their respective titles were as follows:

James Vaughn	President
Robert Sluijter	Treasurer
Janice Hoppe	Secretary

As noted in the schedules above, James Vaughn, President, was not on the Board as required by Article V, Section 1 of the bylaws described above. Therefore,

It is recommended that the President also be a member of the Board of Directors as required by its bylaws.

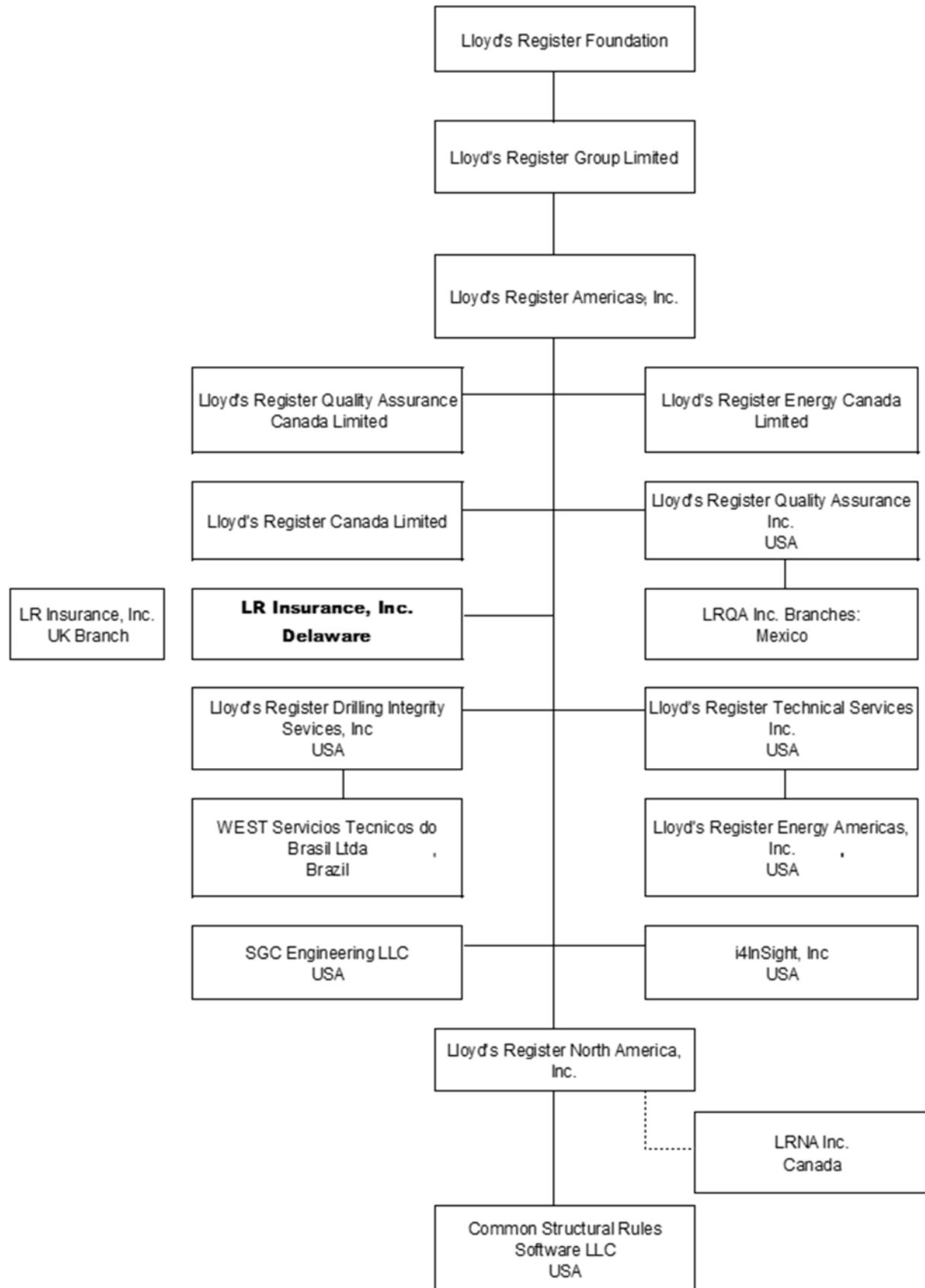
Corporate Records

The recorded minutes of the Shareholder and Board were reviewed during the examination. Per the examination's review of the minutes, it was noted that the recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events. Other than a checking account, the investments of the Company consisted only of two certificates of deposits, which have not changed during the examination period.

Insurance Holding Company System

LR operates within the Lloyd's Register Group Limited (Lloyd's Register) with Lloyd's Register Foundation as the ultimate parent. Lloyd's Register is a global engineering, technical and business services organization that operates across many industry sectors, with over 7,100 employees based in 75 countries.

The following abbreviated presentation of the holding company system reflects the identities and interrelationships between the Company, its parent, and other members of the holding company system as of December 31, 2019:



Agreements with Affiliates

The Company has the following agreements with affiliated parties:

Management Services Agreement

Effective July 02, 2012, the Company and other subsidiaries entered into an agreement with Lloyd's Register and affiliated service providers noted in Schedule 1 of the agreement to provide specified management services for a fee based on cost plus a six per cent mark up. Services included corporate communications, group financial planning and analysis, corporate finance and group reporting services, group safety and business assurance, human resources, information technology, integrated business system, internal audit services, legal services, operational management and reporting, risk management and secretarial services and taxation and treasury services.

Reciprocal Services Agreement

Effective July 02, 2012, the Company and other subsidiaries entered into an agreement with Lloyd's Register to provide reciprocal service related to classified codes and standards inspection services. Fees for this reciprocal agreement are agreed upon from time to time following discussion and negotiation.

License Agreement

Effective July 02, 2012, the Company and other subsidiaries, referred to as Licensees, entered into an agreement with Lloyd's Register, referred to as Licensor, that allowed the Licensees the use of Intellectual Property Rights and the technical and marketing support services in respect of their activities connected with the promotion of safety on land and sea.

Consolidated Federal Income Tax Agreement

Effective July 1, 2017, the Company entered into a Tax Allocation Agreement between Lloyd's Americas and its subsidiaries.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact the business of casualty insurance, specifically only boiler and machinery insurance, in the states of Delaware, Oklahoma and New Jersey.

The Company's primary activity is American Society of Mechanical Engineers (ASME) boiler and machinery inspection services as related to merchant vessels which are handled mainly through a UK branch office. The 1973 bylaws of the US National Board of Boiler and Pressure Vessel Inspectors required that any agency that inspects boilers or pressure vessels to ASME Code must be an insurance company authorized to write boiler and pressure vessel insurance. ASME discontinued the requirement for insurance writing capability. The inspection is now reported locally. While ASME has discontinued the insurance writing requirement, many states have statutes on the books that still require insurance writing capability. The Company only had three policies issued in 2019.

REINSURANCE

There were no assumed or ceded reinsurance contracts in effect at year end 2019.

FINANCIAL STATEMENTS

Financial Statements as reported and filed by the company with the Department are reflected in the following as of December 31, 2019:

- Statement of Assets as of December 31, 2019
- Statement of Liabilities and Surplus as of December 31, 2019
- Statement of Income for the Year Ended December 31, 2019
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2014 to December 31, 2019

Statement of Assets
As of December 31, 2019

	Assets	Nonadmitted Assets	Net Admitted Assets	Notes
Bonds	\$ -	\$ -	\$ -	
Common stocks	-	-	-	
Cash, cash equivalents and short-term investments	1,683,956	-	1,683,956	
Investment income due and accrued	-	-	-	
Premiums and considerations	-	-	-	
Uncollected premiums and agents' balances in course of collection	-	-	-	
Current federal and foreign income tax recoverable and interest thereon	-	-	-	
Receivable from parent, subsidiaries and affiliates	104,840	-	104,840	1
Total assets excluding separate accounts, segregated accounts and protected cell accounts	\$ 1,788,796	\$ -	\$ 1,788,796	
From Separate Accounts, segregated accounts and protected cell accounts	-	-	-	
Total	\$ 1,788,796	\$ -	\$ 1,788,796	

Statement of Liabilities and Surplus
As of December 31, 2019

		<u>Notes</u>
Losses	\$	-
Reinsurance payable on paid losses and loss adjustment expenses		-
Loss adjustment expenses		-
Current federal and foreign income taxes		-
Unearned premiums		15
Remittances and items not allocated		-
Amounts due to parents, subsidiaries and affiliates	219,011	
Total Liabilities	\$ 219,026	
Common capital stock	\$ 1,000,000	
Gross paid-in and contributed surplus	558,154	
Aggregate write-ins for special surplus funds		-
Unassigned funds	11,616	
Surplus as regards policyholder surplus	\$ 1,569,770	
Total Liabilities, Capital and Surplus	\$ 1,788,796	

Statement of Income
For the Year Ended December 31, 2019

Premiums earned	\$ 60
Losses incurred	-
Loss adjustment expenses incurred	-
Other underwriting expenses incurred	48,838
Net underwriting gain (loss)	\$ (48,778)
Net investment income earned	-
Net realized gain (loss)	-
Net investment gain (loss)	\$ -
Total Net gain (loss) from agents' or premium balances	-
Aggregate write-ins for miscellaneous income	52,000
Total other income	\$ 52,000
Divdends to policyholders	-
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	3,222
Federal and foreign income taxes incurred	-
Net income(loss)	\$ 3,222

**Reconciliation of Capital and Surplus
For the Period from the Prior Examination
As of December 31, 2014 to December 31, 2019**

Capital and Surplus, December 31, 2014	\$ 8,212,276
Net income or (loss)	\$ (94,228)
Change in net unrealized foreign exchange capital gain (loss)	(1,967,925)
Dividends to stockholders	(4,580,354)
Capital paid in	500,000
Surplus paid in	(500,000)
Net change in capital and surplus	<u>(6,642,507)</u>
Capital and surplus, December 31, 2019	<u>\$ 1,569,770</u>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS
RESULTING FROM THE EXAMINATION**

There were no changes made to the Company's Financial Statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1 - Receivables from parent, subsidiaries and affiliates \$ 104,840

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this Report of Examination. It was noted during the examination that the Company was unable to provide proof that the intercompany receivable was being settled in a timely manner. Therefore,

It is recommended that the Company take steps to settle the intercompany receivable, and ensure any future intercompany receivable or payable is settled timely as recommended in the *NAIC Accounting Practices and Procedures Manual, SSAP 25, paragraph 7.*

SUBSEQUENT EVENTS

There were no material transactions occurring immediately subsequent to the examination period.

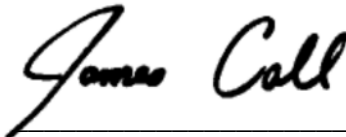
SUMMARY OF RECOMMENDATIONS

It is recommended that the President also be a member of the Board of Directors as required by its bylaws.

It is recommended that the Company take steps to settle the intercompany receivable and ensure any future intercompany receivable or payable is settled timely as recommended in the *NAIC Accounting Practices and Procedures Manual, SSAP 25, paragraph 7*.

The assistance of the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,

A handwritten signature in black ink that reads "James Call". The signature is written in a cursive style with a horizontal line extending from the end of the name.

James Call, CFE
Examiner-In-Charge
State of Delaware

LR Insurance, Inc.

I, James D. Call, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to Exam Authority No. 20.036.


James D. Call, CFE